

Retail Market Review Response

From:



On tariff simplification:

I would argue that some aspects of current pricing structures for domestic customers in the market creates perverse incentives, and is overly confusing.

Specifically, the elimination of the clear 'standing charge' and its replacement with significantly less clear 'initial/continuing' rates, with units over a certain KWh/year being cheaper.

The user if they want to accurately compute how much they are actually going to pay has to do complex arithmetic.

Also, this threshold creates perverse incentives. For example, I am currently insulating my home when this work completes, I will be using around 1/4 of the gas to heat my home.

The saving from this however will be considerably less than it might otherwise be, due to over half the price of the gas being at the higher per-unit rate.

This creates disincentives for people with lower energy use to attempt further savings, as their electricity and gas become more expensive with savings in power!

My suggestion to eliminate this perverse incentive would be to eliminate the standing charge totally for most users.

There would be a minimum spend per year or per quarter, which is set at a level regulated by OFCOM. This might be - for example - 80 pounds per annum for domestic customers, perhaps 120 for dual fuel customers.

For most customers on normal tariffs, in order to see valid comparisons that will apply to them, they need only look at one headline rate 'you will pay 12.8p/KWh' would be a figure that could be directly compared between tariffs and suppliers.

There would be no need to do any complex calculations at all.

There would still be considerable flexibility, in that utilities could offer fixed rate deals.

The minimum spend requirement would only usually occur when the property would be empty, and suppliers would be free to offer packages which depart from the above simplicity for offers relating to that case.